GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2007

FISCAL ANALYSIS MEMORANDUM

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DATE: April 18, 2008

TO: Revenue Laws Study Committee

FROM: Rodney Bizzell
Fiscal Research Division

RE: Deferred Property Tax Program and Benefit Changes

FISCAL IMPACT

Yes ( ) **No (x)** **No Estimate Available ( )**

	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
REVENUES:					
General Fund			*No General Fund Impact*		
Local Governments			*No significant impact*		

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: NC Local Governments; NC Department of Revenue

EFFECTIVE DATE: Taxable years beginning July 1, 2008.

BILL SUMMARY:
This legislative proposal would make certain modifications to the circuit breaker tax benefit, as recommended by the Department, the School of Government, and county assessors and collectors, to ease the administration and implementation of the program. The bill also creates a new statutory section to collect and synchronize administration of all of North Carolina's property tax deferral programs and creates a new statutory section to collect and simplify statutory treatment of

enforced collection remedies. The bill also makes other necessary technical, clarifying, and conforming changes.

ASSUMPTIONS AND METHODOLOGY:
In 2007, the General Assembly enacted a new property tax deferral benefit for North Carolina residents who have owned and occupied property located in the State as a permanent residence for at least five years and are either 65 years of age or older or totally and permanently disabled, to go into effect for the 2009-2010 fiscal year. An owner who meets the requirements of the circuit breaker benefit and makes less than the income eligibility limit of the homestead exclusion may defer the portion of taxes imposed on the permanent residence that exceeds four percent (4%) of their income. An owner who meets the requirements of the circuit breaker benefit and makes between the income eligibility limit and one and one-half times the income eligibility limit may defer the portion of taxes imposed on the permanent residence that exceeds five percent (5%) of the owner's income.

The proposal would make four substantive changes to the circuit breaker program:

- First, it would transfer the responsibility for notifying qualifying owners of the cumulative amount of deferred taxes, including interest, to the tax collector. Under current law, the tax assessor must make this required notification. In those areas where a town, e.g., has a separate tax collector, the assessor usually does not have access to all the information required to make the notification, but the collector does. Moreover, the collector can merely include this information with the tax bill that is sent out in July and August.
- Second, it would increase uniformity regarding when enforced collection remedies become available to a taxing unit following a disqualifying event. Under current law, taxes deferred under the circuit breaker program accrue interest, become a lien on the real property, and are carried forward until one of three disqualifying events occurs: death of the owner, transfer of the residence by the owner, or cessation of use of the residence as a permanent residence by the owner other than a qualifying temporary absence.[1] Upon the occurrence of a disqualifying event, the amount of taxes for that year with no circuit breaker benefit plus those taxes deferred for the preceding three fiscal years, together with interest, become due, but enforced collection remedies may not be utilized until nine months after the disqualifying event. This delay is unique among North Carolina's property tax deferral programs, and the proposal would modify the delay in two ways: first, it eliminates the delay in using the enforced collection remedies for all disqualifying events other than the owner's death, and second, it reduces the delay when the disqualifying event is the owner's death from nine months to the first day of the sixth month following the date of death.
- Third, it would convert the application process from a one-time application to an annual application. Under current law, the application process, like many eligibility thresholds and definitions, was modeled after the homestead exclusion. However, while eligibility for both programs is contingent on a taxpayer's income, the actual benefit received is a

[1] An exception to this rule exists, allowing deferral to continue if the residence is transferred to a spouse or qualifying co-owner and that individual qualifies for deferral and elects to continue deferral.

function of different variables: the property value for the exclusion versus the taxpayer's income for the circuit breaker. Since the amount of the circuit breaker tax benefit is a function of the taxpayer's income, annual reporting of income is necessary for the county to prepare the tax bill.

- Fourth, it would create an exception to the general prohibition regarding access to public records that contain information about a taxpayer's income in order to allow agents of a county to disclose on a property tax receipt the amount of property taxes due and deferred. Under current law, G.S. 132-1.1 prohibits disclosure of local tax records that contain information about a taxpayer's income. Since the amount of taxes that can be deferred under the program is a function of income and since counties make property tax records public, one could use the amount of deferred taxes to calculate a qualifying owner's income, thus necessitating an exception to permit continuation of current practice.

The remainder of the proposed changes are clarifying or technical in nature. None of the proposed changes are expected to have any significant fiscal impact.

SOURCES OF DATA: NC Department of Revenue

TECHNICAL CONSIDERATIONS: None